WAKELY CONSULTING GROUP

CONSULTING ACTUARIES & HEALTHCARE SPECIALISTS

The 3Rs: Risk Adjustment, Reinsurance, and Risk Corridors

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Caveats

- Our opinions, not those of state or other consultants at Wakely
- Draft regulations pending
- Not representative of opinions of governance or jurisdiction
- Work is ongoing
- Our opinions may change

Agenda

- Overview of 3Rs Proposed Rules
  - Risk adjustment
  - Reinsurance
  - Risk corridor
- CCIIO white paper
- Timeline
- Questions and discussion

Summary of 3 Rs by Market

	Sold within Exchange		Sold Outside Exchange			Who Administers	
ACA Provision	IND	SG	IND	SG	Grand-Father	State Run Exchange	Federal Run Exchange
Risk Adjustment	Yes	Yes	Yes	Yes	No	State or HHS [1]	HHS
Reinsurance	Yes	No	Yes	No	No	State	State or HHS [1]
Risk Corridor	Yes	Yes	No	No	No	HHS	HHS

[1] State can decide to administer or allow HHS to administer. If HHS administers, all parameters will be federal.

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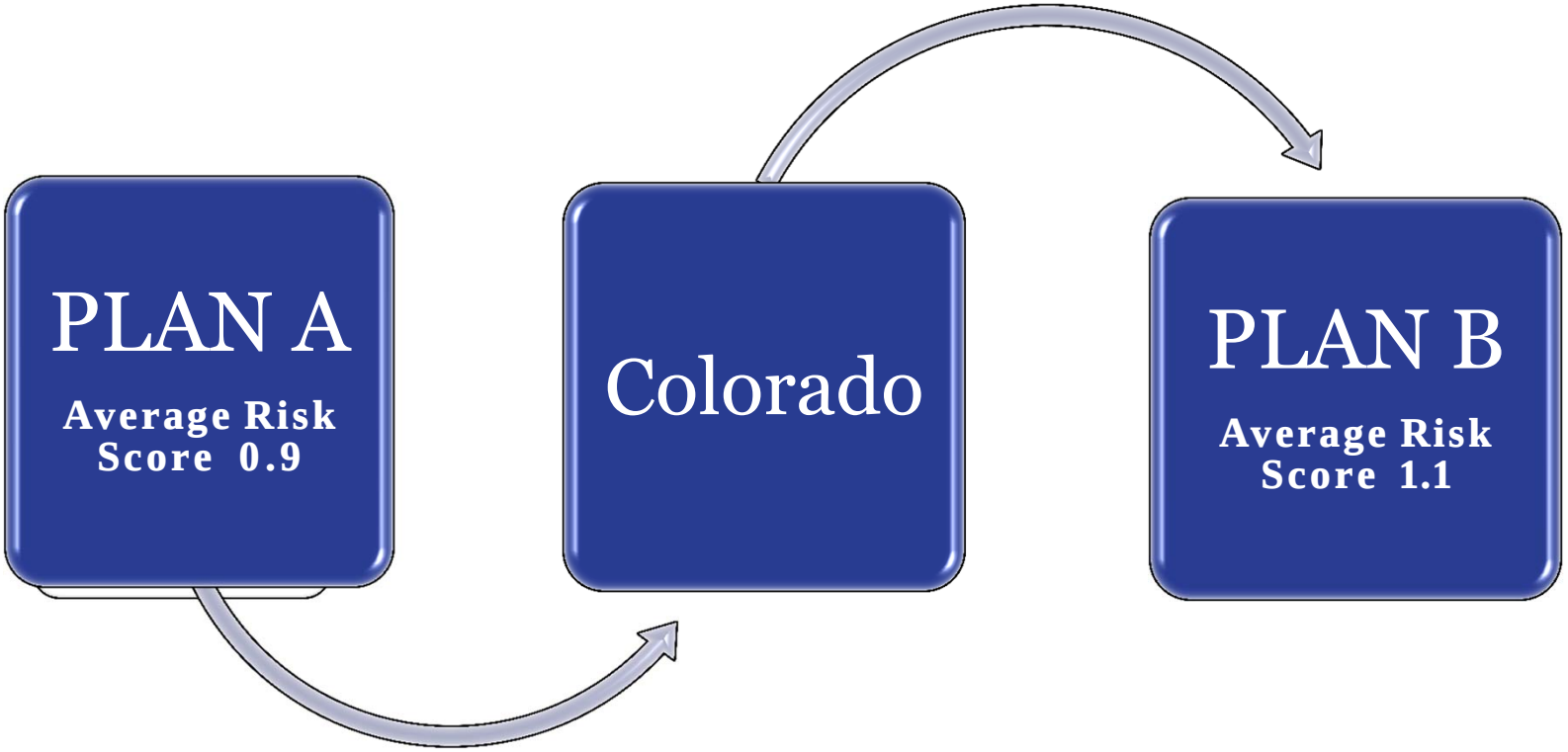
What is Risk Adjustment? (At Plan Level)



Average Premium Rate = $500 PMPM

Plan A pays Plan B $50 PMPM

What is Risk Adjustment? (At Member Level)

Example 1: John Smith, 32, has the following medical history:

Risk Marker	Risk Weight
Male, Age 32	0.22
Diabetes with significant co-morbidities	1.32
Asthma/COPD	0.96
Low cost dermatology	0.30
Total Risk Score	**2.80**

If the average risk score is 1.0, John Smith is expected to be 180% more costly than the average enrollee.

Source: American Academy of Actuaries: Issue Brief, "Risk Assessment and Risk Adjustment," 5/2010

Example 2: Mark Johnson, 32, has no medical history:

Risk Marker	Risk Weight
Male, Age 32	0.22
Total Risk Score	**0.22**

If the average risk score is 1.0, Mark Johnson is expected to be 78% less costly than the average enrollee.

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What is Reinsurance

Sample Reinsurance Calculation

Reinsurance Parameters	State or Federal Reinsurance	Traditional Reinsurance
Attachment Point (paid claims threshold where reinsurance begins)	$50,000	$200,000
Coinsurance Rate (percent between attachment point and cap for which reinsurer is liable)	80%	85%
Reinsurance Cap (claims in excess of the cap are not eligible for reinsurance)	$150,000	$2,000,000

Example

Insurer Initial Paid Claim Amount = $500,000

Net Insurer Liability* = $50,000 + 20% x (150,000 - 50,000) + (200,000 - 150,000) + 15% x (500,000 - 200,000) = $165,000
State or Federal Reinsurance Payment* = 80% x (150,000 - 50,000) = $80,000
Traditional Reinsurance Payment = 85% x (500,000 - 200,000) = $255,000

* Note that the State/Federal Payments may be prorated down for all insurers if the total payments exceed the available funds

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Key Reinsurance Provisions

National Reinsurance Funding

Program	2014	2015	2016
Reinsurance	$10	$6	$4
U.S. Treasury	$2	$2	$1

- All payers assessed same rate (including TPAs)
- Will affect states differently (Individual Market / Total Market and Individual Premiums / Costs)
- States can increase assessment, but can't decrease
- If increase, can use increase or some % to fund administration

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Reinsurance Premium Impact

Description	Higher Estimate of Individual Market			Lower Estimate of Individual Market		
	2014	2015	2016	2014	2015	2016
Net Assessment (Reinsurance Only - Not Treasury Contribution)	1.2%	0.6%	0.4%	1.2%	0.7%	0.4%
Net Impact to Individual Market Premiums (US)	-7.4%	-3.5%	-2.0%	-11.4%	-5.2%	-2.7%
Net Impact to Individual Market Premiums (Colorado)	-6.6%	-3.3%	-1.9%	-9.9%	-4.7%	-2.5%

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Risk Corridor Under ACA

Allowable/ Target	Action	Amount Paid
Greater than 108%	HHS pays QHP	2.5% of Target + 80% of amount in excess of 108%
103% to 108%	HHS pays QHP	50% of amount in excess of 103%
97% to 103%	No action	No payment transfer
92% to 97%	QHP pays HHS	50% of difference between 97% of target and allowable cost
Less than 92%	QHP pays HHS	2.5% of Target + 80% of difference between 92% of target and allowable cost

Summary of 3 Rs by Market (Repeated)

	Sold within Exchange		Sold Outside Exchange			Who Administers	
ACA Provision	Individual	Small Group	Individual	Small Group	Grand-Fathered	State Run Exchange	Federal Run Exchange
Risk Adjustment	Yes	Yes	Yes	Yes	No	State or HHS [1]	HHS
Reinsurance	Yes	No	Yes	No	No	State	State or HHS [1]
Risk Corridor	Yes	Yes	No	No	No	HHS	HHS

[1] State can decide to administer or allow HHS to administer. If HHS administers, all parameters will be federal.

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Key Takeaways: Risk Adjustment

- Feds will do it if states don't want to but must be approved
- Lots of decisions to be made, but some indications
  - Centralized
  - Medicare-like
  - Retrospective
- Demographic, Medical and Rx (?) data used
- A lot to do in a short time!

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Key Takeaways: Reinsurance

- If state runs Exchange, states have to administer
- Can use federal parameters or develop state parameters
- Must assess at least federal assessment rate
- Can increase to cover administrative costs
- Significant impact to individual premium rates
- A lot of uncertainty since it depends on:
  - Individual market size
  - Group market size
  - Individual premium rates
  - Group premium rates / costs

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Key Takeaways: Risk Corridor

- Federal program so states cannot change it
- Last in order of 3R's
- Target = MLR?
  - If so, one-sided protection that moves money from policyholders to HHS

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CCIIO White Paper – Fed Decisions

- Prospective and concurrent data and weights for risk adjustment
- Accounting for transitional reinsurance payments in risk adjustment
- Addressing limited claims experience
- Adjusting for receipt of cost sharing reductions
- Pharmacy data in risk adjustment
- Accounting for differences in plan benefit structure
- Risk adjustment for catastrophic plans
- Transitional versus steady state model

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Timing Considerations

- Oct 2012: HHS to release federal risk adjustment model and reinsurance parameters
- Nov 2012: State alternative models and parameters are due to HHS
- Jan 2013: HHS will respond regarding alternatives proposed
- Apr 2013 (est.): States to provide carriers with results
- July 1, 2013 (est.): Carriers to submit rate filings for 2014 products to states
- HHS will not be collecting data or releasing carrier-specific results prior to 2014

Timing Considerations

Annual Federal Notice	2014	2015	2016
HHS Publishes Advance Notice	Mid Oct 2012	Mid Oct 2013	Mid Oct 2014
Comment period ends	Mid Nov 2012	Mid Nov 2013	Mid Nov 2014
HHS Publishes Final Notice	Mid Jan 2013	Mid Jan 2014	Mid Jan 2015

Spectrum of Stakeholder Involvement

Stakeholders identify high level issues and concerns, but do not drive process	State seeks input on some aspects of model and methodology during development phase	State seeks input on all aspects of model development during development phase	State delegates some decisions to a stakeholder work group	State delegates many decisions to a work group tasked with developing methodology

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Timeline prior to 2014
Data Collection Needs to Start Early 2012

	Implementation Step	Timing
1	Stakeholder buy-in, project plan, legislation, assess resources/needs	~~Oct11~~ Jan 2012 - Mar 2012
2	Data collection (#1)	Apr 2012
3	Analyze data, apply initial model and method, and produce results	May 2012 - July 2012
4	Discuss results with carriers, Board, address outstanding data issues	Aug 2012 - Sep 2012
5	Federal risk adjustment model and reinsurance parameters released	Oct 2012
6	Decide on model and parameters, submit alternatives if applicable	Nov 2012
7	HHS to release decision on submitted alternative models and parameters	Jan 2013
8	Data collection (#2)	Jan 2013
9	Analyze, provide results, discuss with carriers & Board	Jan 2013 - Apr 2013
10	Carriers submit rate filings and products to State	Jun 2013
11	Develop reporting protocols, procedural decisions	Jul 2013 - Sep 2013

Timeline: Critical Points of Understanding

- Doing nothing
  - No risk scores from HHS prior to 2014
  - Carriers need to set rates for 2014 (mid-2013)
  - No information = Conservative assumptions = Higher premiums
- Waiting for federal model to be released
  - Will data fixes be possible?
  - Stuck with model/results
  - 30 days to submit alternative

Key Considerations During 2014

- Cashflow for program
- Cashflow for carriers
- Data availability, including speed of claim payment run-out
- Predictive accuracy of risk adjustment model
- Interim results consistent with final results
- Gaming tactics
- Cost, timing, resources, and effort associated with updates

Roles and Responsibilities: State

- Capacity to accept data and have it analyzed efficiently, expeditiously, and frequently
- Determine incoming and outgoing payments
- Communicate issues with data and results of the analysis
- Establish efficient method of collecting payments from carriers with low-risk
- Track actual to expected payments from carriers
- Retain budget neutrality for risk adjustment
- Establish method of distributing payments to carriers with high-risk

Roles and Responsibilities: Carriers

- Submit accurate data
- Appropriately price products based on 1.0 (average) risk
- Estimate accounts payable and receivable based on assumed relative risk of covered population
- Make timely risk adjustment payments if they have a population with lower than average risk

Timeline in 2014

Timeline Assuming Interim Risk Model is Based on Medical Data		
	Implementation Step	**Timing**
1	Health plans submit 1st half of 2014 data, with 3 months of run-out	Oct 2014
2	State calculates and reports interim payments (in and out)	End of November 2014
3	State collects interim payments from low-risk carriers	Dec 2014
4	State distributes interim payments to high-risk carriers	Jan 2015
5	Health plans submit full year 2014 data with 3 months of run-out	Apr 2015
6	State calculates and reports final payments (in and out)	End of Jun 2015
7	State collects final payments from low-risk carriers	Jul 2015
8	State distributes final payments to high-risk carriers	Aug 2015

Note, it may be possible to perform an additional calculation of interim payments between Jan 2015 and Apr 2015

Discussion